A STUDY ON CREDIT MANAGEMENT OF NEPAL INVESTMENT BANK LIMITED

By:

TINA KARMACHARYA Shanker Dev Campus Campus Roll No: 1527/061 T.U. Regd. No: 5-1-38-88-98

A Thesis Submitted to: Office of the Dean Faculty of Management Tribhuvan University

In partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) Kathmandu, Nepal (April)2011

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

TINA KARMACHARYA

Entitled:

A STUDY ON CREDIT MANAGEMENT OF NEPAL INVESTMENT BANK LIMITED

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

Assco.Prof.Prakash Singh Pradhan	Prof. Bishweshor man shrestha	Prof. Dr. Kamal Deep Dhakal
(Thesis Supervisor)	(Head, Research Department)	(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva -voce of the thesis presented

By: TINA KARMACHARYA Entitled:

A STUDY ON CREDIT MANAGEMENT OF NEPAL INVESTMENT BANK LIMITED

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master Degree of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department	
Member (Thesis Supervisor)	
Member (Thesis Supervisor)	
Member (External Expert)	

DECLARATION

I hereby declare that the work reported in this thesis entitled "A Study on Credit Risk Management of Nepal Investment Bank Limited" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Studies (MBS) under the supervision of Assco.Prof.Prakash Singh Pradhan of Shanker Dev Campus.

.....

Tina Karmacharya Researcher Campus Roll No: 1527/061 T.U. Regd. No: 5-1-38-88-98

ACKNOWLEDGEMENT

This research is basically study on "*Credit Management of Nepal Investment Bank Ltd*", has been prepared to fulfill partial requirement of Master's in Business studies (M.B.S) under the faculty of Management. For this, I am greatly thankful to the management faculty of Tribhuvan University for preparing this writing a compulsory in our course.

This study has been carried out under the supervision of **Ass.Prof.Prakash Singh Pradhan**,. of Shanker Dev Campus for the precious guidelines, inspiration and suggestion thoroughly during the period of this research. Without his valuable insight, I would not think of accomplishment of this thesis.

I express my sincere gratitude to all the authors and learned personalities, whose writings have been cited in this study. I want to give thanks to all the staff members of T.U. Central Library, Shanker Dev Campus Library and to all the concerned staffs of Nepal Investment Bank Ltd. Who provided the reference and reading materials during the period of research. I'm also thankfull to all my friends and colleagues.

.....

Tina Karmacharya (Researcher) Campus Roll No: 1527/061 T.U. Regd. No: 5-1-38-88-98

TABLE OF CONTENTS

Recommendation Viva-Voce Sheet Declaration Acknowledgement Table of Contents List of Tables List of Figures Abbreviations

CHAPTER-I

INTRODUCTION

Page No.

1.1 Background	1
1.1.1 Evolution of Banking Industry	1
1.1.2 Development of Banking Industry In Nepal	2
1.1.3 Background of Nepal Investment Bank Limited	4
1.1.4 Vision	4
1.1.5 Mission Statement	4
1.1.6 Company Objective	4
1.1.7 Corporate Strategy	5
1.1.8 Company Core Values and Ethical Principles	5
1.1.9 Promoters and Shareholders	6
1.1.10 Performance overview	8
1.1.10.1 The Retail Banking	8
1.1.10.2 Card Center	8
1.1.10.3 Remittance	8
1.1.10.4 Corporate Banking	9
1.1.10.5 Trade Finance	9
1.1.10.6 Treasury	9
1.1.10.7 Information Technology	9
1.1.10.8 Human Resources	10
1.1.11 Awards	10
1.1.12 Corporate Governance	10
1.1.13 Study Focus	11
1.2 Objectives of the Study	12
1.3 Significance of the Study	12
1.4 Relevance of the Study	12
1.5 Statement of the Problem	13
1.6 Limitations of the Study	13
1.7 Organization of the Study	14

CHAPTER - II REVIEW OF LITERATURE

2.1 Theoretical/ Conceptual Framework	15
2.1.1 Concept of Bank	15
2.1.2 Introduction of Banking Industry	15
2.1.3 Commercial Banks	16
2.1.4 Growth	17
2.1.5 Concept of Credit	17
2.1.6 Types of Credit	18
2.1.7 Off-Balance sheet Transaction	20
2.1.8 Credit Risk	20
2.1.9 Risk Management	21
2.1.10 Credit Risk Management	22
2.1.11 Market Risk Management	23
2.1.12 Foreign Exchange Management	23
2.1.13 Liquidity Risk Management	24
2.1.14 Process of Credit Disbursement in NIBL	24
2.1.15 Measurement of Credit Risk	25
2.1.16 Default Risk Models	25
2.2 Review of Related Studies	27
2.2.1 Review of Articles and Journals	27
2.2.2 Review of Thesis (Dissertations)	28
2.3 Research Gap	32

CHAPTER - III RESEARCH METHODOLOGY

3.1 Introduction	33
3.2 Research Design	33
3.3 Population and Sample	33
3.4 Data Collection Procedure	34
3.5 Method of Data Analysis Technique	34
3.5.1 Financial tool	34
3.5.1.1 Ratio Analysis	34
3.5.2 Statistical tools	41

CHAPTER - IV PRESENTATION ANALYSIS AND INTERPRETATION

4.1 Introduction	44
4.2 Financial Statement Analysis	44
4.2.1. Liquidity Ratio	44
4.2.2 Assets Management Ratio	48
4.2.3 Leverage Ratio	83
4.2.4 Profitability Ratio	57
4.2.5 Lending Efficiency Ratio	65
4.3 Statistical Analysis	68
4.4 Major Findings of Study	78
4.5 Statistical Tools	80

CHAPTER - V SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	82
5.2 Conclusion	84
5.3 Recommendation	85

Bibliography

Appendices

LIST OF TABLES

Table No.	Title	Page No
Table 1.1	Share Holders of the Bank	6
Table 1.2	Capital Structure of the Bank	7
Table 4.1	Cash and Bank Balance to Total Deposit	45
Table 4.2	Cash and Bank Balance to Current Deposit	46
Table 4.3	Cash and Bank balance to interest sensitive deposit Ratio	47
Table 4.4	Credit and Advances to Fixed Deposit Ratio	49
Table 4.5	Credit and Advances to Total Deposit Ratio	50
Table 4.6	Credit and Advances to Total Assets Ratio	51
Table 4.7	Non performing assets to Total Assets Ratio	52
Table 4.8	Total Debt to Equity Ratio	54
Table 4.9	Total Debt to Total Assets Ratio	55
Table 4.10	Total Assets to Net worth Ratio	56
Table 4.11	Net profit to Gross Income Ratio	57
Table 4.12	Interest Income to Total Income Ratio	58
Table 4.13	Operating Profit to Loan and Advance Ratio	59
Table 4.14	Return on Loan and Advance Ratio	60
Table 4.15	Net Profit to Total Assets Ratio	61
Table 4.16	Earning Per Share	62
Table 4.17	Price Earning Ratio	64
Table 4.18	Loan Loss Provision to Loan and Advance Ratio	65
Table 4.19	Non Performing Loan to Total Credit and Advances Ratio	66
Table 4.20	Interest Expenses to Total Deposit Ratio	67
Table 4.21	Correlation Coefficient between Deposit and Loan and Advances	70
Table 4.22	Correlation Coefficient between Deposit and total assets	70
Table 4.23	Coefficient of Correlation between Loan and Advances and Net Prof	īt 71
Table 4.24	Correlation Coefficient between total debt to total assets	72
Table 4.25	Correlation Coefficient between loan and advances and no performin	g assets 72
Table 4.26	Trend of total deposits	73
Table 4.27	Trend Analysis of total loan and advances	74
Table 4.28	Trend of Total Assets	76
Table 4.29	Trend Analysis of total net profit	77

LIST OF FIGURES

Figure No.	Title	Page No.
Figure 1.1 Share Holding F	Pattern of the Bank	7
8	Balance to Total Deposit Ratio	46
8	Balance to Current Deposit ratio	47
8	Balance to Interest Sensitive Deposit Ratio	48
Figure 4.4 Credit and Adva	inces to Fixed Deposit Ratio	49
Figure 4.5 Credit and Adva	inces to Total Deposit Ratio	51
Figure 4.6 Credit and Adva	ances to Total Assets Ratio	52
Figure 4.7 Non performing	g assets to Total Assets Ratio	53
Figure 4.8 Total Debt to E	quity Ratio	54
Figure 4.9 Total Debt to T	otal Assets Ratio	55
Figure 4.10 Total Assets to	Net worth Ratio	56
Figure 4.11 Net profit to G	Gross Income Ratio	58
Figure 4.12 Interest Incom	e to Total Income Ratio	59
Figure 4.13 Operating Prot	fit to Loan and Advance Ratio	60
Figure 4.14 Return on Loa	n and Advance Ratio	61
Figure 4.15 Net Profit to T	'otal Assets Ratio	62
Figure 4.16 Earning Per Sh	pare	63
Figure 4.17 Price Earning	Ratio	64
Figure 4.18 Loan Loss Pro	vision to Loan and Advance Ratio	66
Figure 4.19 Non Performin	ng Loan to Total Credit and Advances Ratio	67
Figure 4.20 Interest Expen	ses to Total Deposit Ratio	68
Figure 4.26 Total Deposit	Trend Analysis of total loan and advances	74
Figure 4.27 Trend analysis	of Total Loan and Advance Total loan and advances	75
Figure 4.28 Trend Analysis	of Total Assets Total assets	76
Figure 4.29 Total net profi	t	78

ABBREVIATIONS

%	:	Percentage
&	:	And
AD	:	After Death of Christ
ADB	:	Agriculture Bank Limited
AGM	:	Annual General Meeting
ATM	:	Automated Teller Machine
BOD	:	Board of Directors
BOK	:	Bank of Kathmandu
BPS	:	Book Value per Share
BS	:	Bikram Sambat
CEO	:	Chief Executive Officer
CIB	:	Central Information Bureau
CV	:	Coefficient of Variation
DPS	:	Dividend per Share
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
FI	:	Financial Institution
FY	:	Fiscal Year
H/O	:	Head Office
IT	:	Information Technology
JV	:	Joint Venture
LC	:	Letter of Credit
Ltd.	:	Limited
MIS	:	Market Information System
MPS	:	Market Price of Share
NIBL	:	Nepal Investment Bank Limited
No.	:	Number
NPA	:	Non performing Assets
NRB	:	Nepal Rastra Bank
PIN	:	Personal Identification Number
RBB	:	Nepal Banijya Bank
Rs	:	Rupees
T- Bill	:	Treasury Bill
UAE	:	United Arab Emirates

•